9 March 2020

FFIF response on Commission proposal "Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post 2021" Ref.: HT.582.

Finnish forest industries federation (FFIF) represents Finland's entire pulp, paper, and paperboard industry as well as approximately 65 per cent of the wood products industry. FFIF welcomes that both pulp (NACE 17.11) and paper (NACE 17.12) have been recognised among the sectors most at risk of carbon leakage and therefore eligible for compensation. It is important to safeguard competitiveness of our electro intensive industry, while we pursue our efforts in both decarbonising our operations and provide a growing amount of climate friendly bioproducts to the global market.

Paragraph 21

FFIF strongly oppose to the introduction of the new paragraph 21 which allows Member States to exclude eligible sectors from being compensated "on the basis of objective, non-discriminatory and transparent criteria". There is a fundamental difference between the choice of a country to grant aid – or not – to eligible sectors, and the choice to grant aid only to certain sectors within the list of eligible sectors.

The possibility to exclude sectors is a novelty which was not present in the current state aid guidelines for the post-2012 ETS trading period (SWD(2012) 130 final) (SWD(2012) 131 final), nor in the more recent state aid guidelines on energy and environment for the period 2014-2020 (OJ C 200, 28.6.2014, p. 1-55).

1. It creates regulatory instability. While the proposed new guidelines are intended to provide regulatory stability, the specific provision acts in the opposite direction. It places individual sectors under the threat of being excluded at any time during the trading period, suddenly exposing it to unforeseen carbon costs.

2. It is against the principles of the ETS, whereby a sector deemed to be exposed to the risk of carbon leakage is eligible to receive carbon leakage protection in every single country in the EEA. There should be no possibility for a single member state to derogate from such provisions.

3. Increases the risk of negatively affecting the international competitiveness of European industries. Every sector recognised at risk of carbon leakage should be protected in every country in Europe.

Commission should be encouraging member states to compensate indirect costs instead of increasing inequality and uncertainty.

CO2 emission factor

As a matter of principle, compensation for carbon costs in electricity prices should reflect the exposure to carbon cost passed into electricity prices. No distinction should be made between costs incurred and opportunity costs.

In this respect, we understand the Commission decision to keep the definition of ‘CO2 emission factor’ as “the weighted average of the CO2 intensity of electricity produced from fossil fuels in different geographic areas”, as it is the case already in the current state aid guidelines valid until 2020.

At the same time, we have concerns over the proposed new boundaries of the regional zones, compared to the ones identified in the current state aid guidelines. European Union have been aiming to integrate electricity market areas and therefore have been supporting new cable connection investments between member states. Moving towards single electricity market means that CO2 price signal will reflect more effectively between electricity price areas. Achieving true single electricity market would mean single carbon cost over EU. It is therefore illogical to increase the amount of CO2 factor regional zones. The trend should be totally opposite.

'The allocation of emission factors should contribute to promoting a' level playing field' among Member States and in line with the Single Electricity Market'.

Paragraph 30

The new paragraph 30 seems to be possibility to increase aid intensity if the aid intensity of 75 % is inadequate. At least the following clarifications should be made:

1. It should be clear that “undertaking” refers to “company” and not to “installations”.

2. It should be clarified that the possibility for Member States to cap indirect costs is an additional measure that comes on top of the provision to grant aid intensity of 75%, should the latter not suffice to protect against the risk of carbon leakage. In other words: no installation is compensated less than 75% of CO2 cost.

Paragraph 54.

FFIF member companies have been improving energy efficiency systematically and investing to renewable energy heavily in Finland and therefore our sectors CO2 emissions have decreased remarkably since 2005. However, the indirect CO2 cannot be avoided as long as there is fossil fuel-based electricity setting the price in the electricity markets.

FFIF member companies are aiming to decrease carbon emissions in Finland in the future too. Our sector might be close to carbon neutrality already in 2035. However, the new paragraph 54 concerning conditionality is unhelpful and potentially counter-productive for that purpose. If the Government of Finland won't continue compensating indirect costs, there would be a clear risk that global companies would freeze investments to Finland and target climate investments to other EU countries which are compensating indirect costs if there is conditionality requirements. In general, there would be cases among Europe where the profitable and sensible investments, wouldn't be implemented. Forcing investments in e.g. energy efficiency measures could prevent also investments in radical transformative measures, leading to stranded assets and/or drying up resources for projects with longer payback times.

Provision (c) in paragraph 54 is extremely unhelpful. It assumes that a company is first exposed to the full amount of indirect costs and, when the amount to compensate those costs is available, it cannot be used to compensate those costs but rather used to invest in major projects. In other words, the company has the choice between "not being compensated for the carbon costs incurred", or "not being compensated for the carbon costs incurred but receiving partial financing and being forced to used it to make additional investments". In both cases – the company won't be compensated for the carbon costs already incurred.

Compensation for carbon costs passed into electricity prices is already partial meaning that even the best performer is subject to carbon costs. ETS, the partial compensation and higher electricity prices due the ETS indirect impacts, coupled with internal and international market competition, are already strong drivers to push companies towards climate friendly investments and measures. Legislation should not limit or force companies to invest to certain technology or type of investments.

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